



WEEKLY ECONOMIC DIGEST

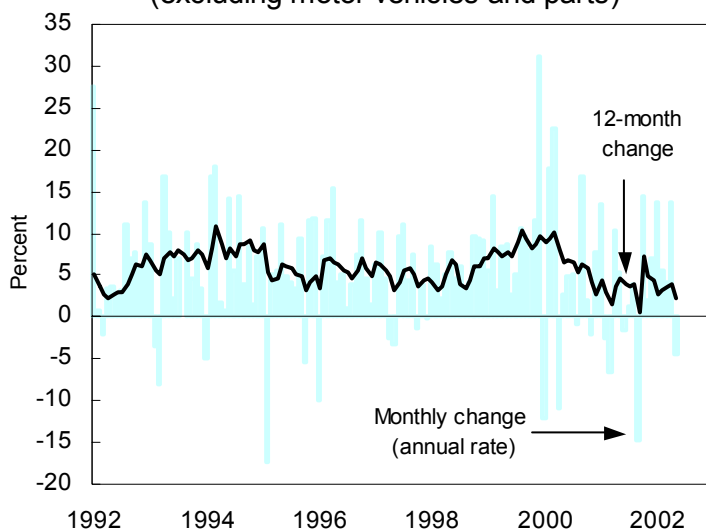


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
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June 18, 2002

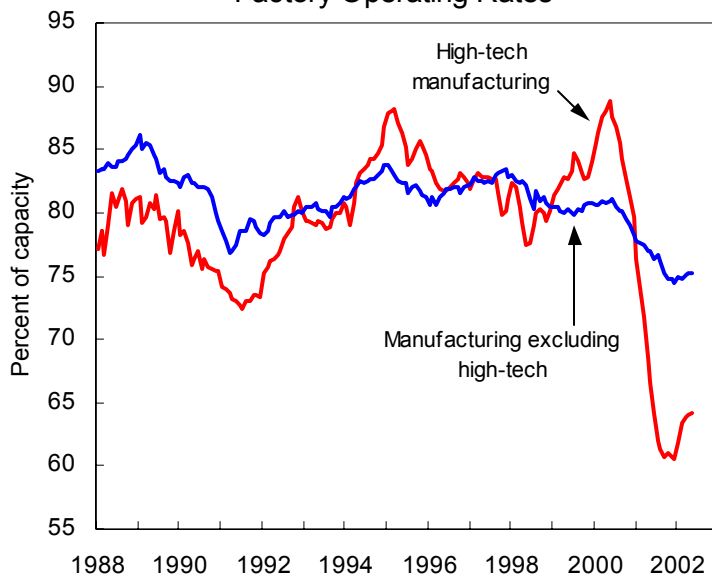
Latest Data Point to Modest Growth in the Second Quarter

Retail and Food Services Sales
(excluding motor vehicles and parts)



Source: Census Bureau, U.S. Department of Commerce.

Factory Operating Rates



Source: Board of Governors, Federal Reserve System.

- **Retail sales slipped in May.** Retail and food services sales fell 0.9 percent in May, according to preliminary estimates released by the Commerce Department. A drop in sales of motor vehicles was only part of the story. Total sales excluding automotive products fell 0.4 percent (4.5 percent at an annual rate). That was the first monthly decline since last September. Even so, sales were 3.4 percent above last year's level. The weak retail sales report, along with a surprising decline in the University of Michigan's preliminary survey of consumer sentiment in June, depressed financial markets late last week and led analysts to reduce slightly their estimates of how rapidly the economy is growing.
- **Industrial production grew slowly.** Production in factories, mines, and utilities rose 0.2 percent in May. Factory output rose by 0.2 percent, with about half of that increase coming from a sharp pickup in the production of selected high-technology goods (computers, communications equipment, and semiconductors). Operating rates in factories producing high-technology goods have risen, on average, by nearly 4 percentage points since the start of the year, but, at 64.2 percent, they remain well below their historical average of about 80 percent.
- **Core producer prices held steady.** The overall producer price index fell 0.4 percent in May, reflecting a 2.3 percent decline in energy prices and a small decline in food prices. Core producer prices, which exclude food and energy, were unchanged. However, the prices of crude materials besides food and energy rose sharply for the second successive month, largely as a result of rising prices for scrap metals.
- **Inventory declines slowed further.** Manufacturing and trade inventories fell by 0.2 percent in April (the latest month for which data are available), compared with a 0.4 percent decline in March. Most analysts expect that the protracted inventory decline is nearly over. Indeed, the rate of inventory liquidation has slowed considerably from the large declines of late last year. That slowing boosted growth in the first quarter. Further slowing and, eventually, the rebuilding of inventories will continue to contribute somewhat to overall growth. However, that pickup in growth will not last unless final sales rebound solidly as well.

Economy At A Glance	May	Apr	Mar	Feb	2002 Qtr 1	2001 Qtr 4	2001 Qtr 3	2001 Qtr 2	2001	2000
Economic Activity										
Real GDP (% growth)					5.6	1.7	-1.3	0.3	1.2	4.1
Industrial Production (% growth)	2.4	3.7	4.9	4.9	2.8	-6.7	-4.7	-5.9	-3.9	4.5
Capacity Utilization (Level, %)	75.5	75.4	75.3	75.0	75.1	74.7	76.2	77.4	76.8	81.8
Civilian Unemployment Rate (Level, %)	5.8	6.0	5.7	5.5	5.6	5.6	4.8	4.5	4.8	4.0
Housing Starts (Thousands)*		1555	1644	1788	1715	1573	1603	1624	1603	1569
Real Disposable Personal Income (% growth)		-0.9	2.2	7.0	13.8	-8.1	12.3	2.4	3.6	3.5
Retail Sales (% growth)	-10.1	15.0	-1.1	6.8	-2.4	12.9	-0.9	4.1	3.8	6.7
Personal Saving Rate (Level, %)		2.8	3.0	2.8	2.9	0.4	3.8	1.1	1.6	1.0
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)*		6.2	3.7	2.4	1.4	-0.3	0.7	3.1	2.8	3.4
Core CPI-U Inflation (% growth)*		3.7	1.2	3.7	2.3	2.7	2.7	2.4	2.7	2.4
Compensation per Hour (% growth)					3.6	4.2	3.7	4.0	4.1	4.5
Output per Hour (% growth)					8.4	5.5	1.1	2.1	1.9	3.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	1.7	1.7	1.8	1.7	1.7	1.9	3.2	3.7	3.4	5.8
T-Note Rate, 10-years (Level, %)	5.2	5.2	5.3	4.9	5.1	4.8	5.0	5.3	5.0	6.0
Federal Funds Rate (Level, %)	1.8	1.8	1.7	1.7	1.7	2.1	3.5	4.3	3.9	6.2
Dow Jones Industrial Avg (Index Level)	10080	10165	10501	9891	10105	9641	9934	10669	10189	10735

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Upcoming Economic Releases:

- **Consumer Price Index** [Release: Tuesday, June 18, 2002]
- **Housing Starts** [Release: Tuesday, June 18, 2002]
- **International Trade** [Release: Thursday, June 20, 2002]
- **U.S. Current Account, First-quarter** [Release: Thursday, June 20, 2002]